

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

COMMONWEALTH EDISON COMPANY	:	
	:	Docket No. 14-0569
Reconciliation of revenues collected under	:	
power procurement riders with actual costs	:	
associated with power procurement	:	
expenditures.	:	

Direct Testimony of

GERALD J. KOZEL

Vice President and Controller
Commonwealth Edison Company

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I. INTRODUCTION AND BACKGROUND

A. Identification of Witness

Q. What is your name and business address

A. My name is Gerald J. Kozel. My business address is Commonwealth Edison Company (“ComEd”), Three Lincoln Centre, Oakbrook Terrace, Illinois 60181.

Q. By whom are you employed and what is your position?

A. I am employed by ComEd as its Vice President and Controller.

B. Background and Experience

Q. What is your educational background and qualifications?

A. I graduated from the University of Illinois at Urbana-Champaign in 1994 with a Bachelor’s degree in Accounting and Business Administration. I am a certified Public Accountant in the State of Illinois and a member of the American Institute of Certified Public Accountants.

Q. What is your past and present employment history?

A. I began my career at Arthur Andersen, LLP in 1994 as a staff auditor in the audit practice of the company’s Chicago office. Over the next eight years, my responsibilities increased and I was eventually promoted to Manager. In June 2002, I joined Deloitte & Touche LLP, where I continued my career as an auditor and was promoted to Senior Manager. During my time at both companies, a significant portion of my time was focused on the energy and utility industries. In 2005, I joined Exelon Corporation (“Exelon”) and held roles as Manager and Director. As Controller for ComEd, I am responsible for ComEd’s accounting operations and associated internal controls as well

as external financial reporting requirements and associated filings with the Securities and Exchange Commission, the Federal Energy Regulatory Commission and the Illinois Commerce Commission (“Commission” or “ICC”).

C. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain ComEd’s reconciliation of revenues during the applicable period (the period involved in this proceeding under the applicable tariffs, *i.e.*, June 1, 2012, through May 31, 2013) for: (1) its Purchased Electricity Adjustment Factors (“PEAs”) under ComEd’s Rider PE – Purchased Electricity (“Rider PE”); and (2) its Hourly Purchased Electricity Adjustment Factors (“HPEAs”) under ComEd’s Rate BESH – Basic Electric Service Hourly Energy Pricing (“Rate BESH”).

Q. What did the PEAs pertain to during the applicable period?

A. The PEAs pertained to full requirements electric supply purchased by ComEd for customers, as described in Rider PE, and for which the applicable period is June 1, 2012, through May 31, 2013.

Q. What did the HPEAs pertain to during the applicable period?

A. The HPEAs, like the PEAs, pertained to electric power and energy directly procured by ComEd for customers taking service under ComEd’s bundled service tariff with hourly pricing. The applicable period for the HPEAs also is June 1, 2012, through May 31, 2013.

Q. Is ComEd submitting any other direct testimony?

A. Yes. ComEd is presenting:

- 45 • Direct Testimony of Scott A. Vogt, ComEd Exhibit (“Ex.”) 2.0. That testimony:
46 (1) describes and supports the reasonableness and allocation of ComEd’s
47 administrative and operational costs associated with the procurement of electric
48 power and energy for retail customers served under Rider PE and under
49 Rate BESH for the period June 1, 2012, through May 31, 2013; and (2) explains
50 how ComEd complied during that period with the applicable procurement plan
51 approved by the Commission and provides certain additional related information.
- 52 • Direct Testimony of John Hengtgen, ComEd Ex. 3.0. That testimony describes
53 and supports the reasonableness of ComEd’s cash working capital (“CWC”) costs
54 associated with the procurement of electric power and energy for retail customers
55 served under Rider PE and under Rate BESH for the period June 1, 2012, through
56 May 31, 2013.

57 **D. Summary of Conclusions**

58 **Q. Stated briefly, what are your conclusions?**

59 A. In brief, I conclude that: (1) ComEd correctly determined and recovered the applicable
60 costs through the PEAs during the applicable period and did not inappropriately recover
61 those costs through charges in any other tariffs; (2) ComEd accounted for the costs and
62 revenues associated with the PEAs during the applicable period; (3) ComEd correctly
63 determined and recovered the applicable costs through the HPEAs during the applicable
64 period and did not inappropriately recover those costs through charges in any other
65 tariffs; and (4) ComEd correctly accounted for the costs and revenues associated with the
66 HPEAs during the applicable period.

E. Itemized Attachments to Direct Testimony

Q. Are you sponsoring any attachments to your testimony?

A. Yes. Attached hereto are the following exhibits:

- ComEd Ex. 1.1 is the 2013 ComEd Rider Purchased Electricity Cost Recovery Review prepared by the Internal Audit (“IA”) department of Exelon, ComEd’s parent corporation, along with the accompanying cover letter and Company Officer Verification, which ComEd submitted to the Commission on November 21, 2013.
- ComEd Ex. 1.2 is the Supplemental Report Relating to 2013 ComEd Purchased Electricity Cost Recovery Review contemporaneously submitted to the Commission on November 21, 2013.
- ComEd Ex. 1.3 is a schedule of ComEd’s Cumulative Totals of Incremental Expenses, Revenues and Recoveries under Rider PE and Rate BESH for the June 1, 2012, through May 31, 2013, determination period, which is an updated version of Appendix I to ComEd Ex. 1.2. This update incorporates adjustments reflected in the Commission’s Order in Docket Nos. 12-0549 dated April 16, 2014 and 13-0528 dated April 22, 2015. *See generally Commonwealth Edison Co.*, ICC Docket No. 12-0549, Final Order (April 16, 2014); *Commonwealth Edison Co.*, ICC Docket No. 13-0528, Final Order (April 22, 2015).

Q. Who prepared the internal audit report included in ComEd Ex. 1.1, and what information does the report provide?

A. The internal audit was conducted by Exelon’s IA department, which performs a separate and independent auditing function within Exelon. The report provides background

information, identifies the objective and scope of the internal audit, and describes the results of the internal audit.

Q. What is provided in the supplemental report included in ComEd Ex. 1.2?

A. The supplemental report provides additional background information.

Q. What information is provided in the schedule included in ComEd Ex. 1.3?

A. This schedule provides the cumulative totals of incremental expenses, revenues and recoveries under Rider PE and Rate BESH for the June 1, 2012, through May 31, 2013, determination period and was prepared consistent with the Appendix to the Commission's final Order in Docket No. 12-0549, dated April 16, 2014 and the Commission's final Order in Docket No. 13-0528 dated April 22, 2015. *See generally, Commonwealth Edison Co.*, ICC Docket No. 12-0549, Final Order (April 16, 2014); *Commonwealth Edison Co.*, ICC Docket No. 13-0528, Final Order (April 22, 2015). The schedule includes the following adjustments to the May 31, 2012, balance (originally submitted on November 21, 2013) consistent with the appendix in the final Order in ICC Docket No. 12-0549 dated April 16, 2014, applicable to the determination period June 1, 2010 through May 31, 2011 and the final Order in ICC Docket 13-0528 dated April 22, 2015, applicable to the determination period June 1, 2011 through May 31, 2012: (1) a decrease to cash working capital costs of \$2,863,338; and (2) a decrease to related interest expense of \$41,860. The schedule also includes an adjustment to reflect \$4,822,500 of customer care and collection agency costs allocated to the Supply function in the final Order in ICC Docket No. 14-0312 dated December 10, 2014. These customer care and collection agency costs allocated to Supply are discussed further in the direct

testimony of ComEd's Vice President – Energy Acquisition, Scott A. Vogt (ComEd Ex. 2.0).

II. SUMMARY OF RELEVANT OPERATIONS UNDER RIDER PE AND RATE BESH

Q. Generally, how would you describe the operations relating to the PEAs under Rider PE and the HPEAs under Rate BESH?

A. In brief, the PEAs and HPEAs were designed as part of Rider PE and Rate BESH so that the expenses that ComEd incurred for the procurement of full requirements electric supply and directly procured electric power and energy, as applicable, required by retail customers for which ComEd was providing such supply, would equal revenues from such retail customers for such retail customers for such supply based on changes in those customers' actual usage and demands on ComEd's system. The expenses included in the PEAs and HPEAs also include certain transmission expenses as well as certain supply administration costs associated with the provision of service under Rider PE and Rate BESH, including cash working capital costs. Those supply administrative and operational costs are addressed in the direct testimony of ComEd's Vice President – Energy Acquisition, Scott A. Vogt (ComEd Ex. 2.0). The cash working capital costs are addressed in the direct testimony of John Hengtgen (ComEd Ex. 3.0). As provided in the tariff language of Rider PE and Rate BESH, an internal audit was required to be conducted related to the PEAs and HPEAs for the applicable period, and a report that summarized the results of that internal audit was prepared and then submitted to the Commission as an informational filing. Rider PE, ILL. C. C. No. 10, 1st Revised Sheet No. 328; Rate BESH, ILL. C. C. No. 10, 7th Revised Sheet No. 45. The internal

135 audit was conducted, and the report was prepared. ComEd Ex. 1.1 is a copy of that
136 required submission.

137 **Q. How did ComEd determine the underlying data and calculate the PEAs and HPEAs**
138 **under Rider PE and Rate BESH during the applicable period?**

139 A. In brief, on a monthly basis, ComEd calculated the difference between revenues and
140 expenses recognized associated with each product. ComEd's general ledger contains the
141 revenue and expense data necessary to calculate the PEA and HPEA. ComEd's
142 wholesale procurement management system, payables system and retail billing system
143 are the sources of the information that support the general ledger. These sources were
144 used to validate the wholesale electric supply costs and accrued retail electric supply
145 revenue used in the calculations. At my direction or the direction of my predecessor,
146 Kevin J. Waden, the calculations and filings during the applicable period were prepared
147 by accounting staff and John Bobek (Manager, Accounting) approved them prior to filing
148 with the Commission each month. Any amounts that were over/under-recovered in a
149 given period were reflected in a subsequent period on our customers' bills, as applicable.
150 Any amounts that were credited to or recovered from customers were incorporated into
151 the next applicable monthly calculation of the PEAs and HPEAs. At the end of any
152 accounting period, ComEd recorded a cumulative regulatory asset (under-recovery) or
153 regulatory liability (over-recovery) for each product offering.

154 **Q. Did ComEd correctly determine and recover the applicable costs through the PEAs**
155 **and HPEAs during the applicable period?**

156 A. Yes. The September 30, 2013 Internal Audit Report states in part: “[T]he cost recovery
157 process performed by ComEd Accounting, Energy Acquisition, and Regulatory is in
158 compliance with the requirements of Rider PE and Rate BESH... .” *See* ComEd Ex. 1.1.

159 **Q. Did ComEd inappropriately also recover any of the same costs through charges in**
160 **any other tariffs?**

161 A. No. The accounting and the process related to the PEAs and HPEAs, as well as the tariff
162 provisions, prevented any such double-recovery, as the Internal Audit Report confirms.
163 *See* ComEd Ex. 1.1.

164 **III. CONCLUSION**

165 **Q. Does this conclude your direct testimony?**

166 A. Yes.